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STATE ECONOMIC OPPORTUNITY OFFICE
REPORT ON EXAMINATION
Grant Fiscal Year Ended January 31, 1969

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REPORT ON EXAMINATION

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ELECTIVE AND ADMINISTRATIVE OFFICIALS

STATE ECONOMIC OPPORTUNITY OFFICE

Honorable Forrest H. Anderson

Governor

M. James Sorte

Director

SUMMARY OF RECOMMENDATIONS

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Establish and maintain on a current basis a general ledger utilizing the double entry system.	5
Prepare and file with the federal government amended corrected reports for the grant periods ended April 30, 1967, and January 31, 1968.	5
Make correcting entries for grant fiscal year ended January 31, 1969, so an accurate final report can be filed with the federal government.	5
Initiate a fund transfer to reimburse the federal account for the deficiency of state contributions as of January 31, 1969, in the amount of \$2,596.	7



STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana State Economic Opportunity Office as of January 31, 1969, and the related statements of operations, as set forth in the table of contents in this report, for the federal grant fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The federal government's "Accounting System Survey and Audit Guide" was utilized during our examination to insure that federal grant requirements were considered.

The State Economic Opportunity Office does not maintain a general ledger nor does it utilize the double entry system of accounting. The accompanying financial statements were prepared from detail documents, computations based on federal grant provisions, and by utilizing the prior year financial statements, the office's single entry expenditure register/ledger, and the state controller's report of account and appropriation balances.

The financial statements have been prepared on the accrual basis of accounting. This represents a change from the preceding grant period when the statements were prepared on the cash basis. The accrual basis provides for a more meaningful presentation of the financial position and operations of the state economic opportunity program and permits the preparation of

required federal reports directly from the accounting records.

In our opinion, subject to the exceptions described in the preceding paragraphs, the accompanying financial statements present fairly the financial position of the Montana State Economic Opportunity Office as of January 31, 1969, and the results of its operations for the year then ended, on a basis consistent with that of the preceding grant period and in conformity with generally accepted governmental accounting principles, applicable state laws, and provisions of the federal community action program grant.

We submit the financial statements listed in the preceding table of contents together with the following comments.

COMMENTS

GENERAL

The Montana state economic opportunity office was established under Chapter 263, Montana Laws of 1965, within the office of the governor. The office has the responsibility for coordinating community action programs in Montana and provides assistance as a consultant to those programs. The program is financed by grant funds from the federal government that are matched in part by the state. The first federal grant period began August 6, 1965. The table below displays the history of this program, a projection for the program currently operating, and the level of participation required of the state for matching funds:

	<u>G r a n t P e r i o d</u>					<u>Authorized</u> <u>2/69-1/70</u>
	<u>8/65-4/67</u>	<u>5/67-1/68</u>	<u>2/1/68 - 1/31/69</u> <u>2/68-3/68</u>	<u>4/68-1/69</u>	<u>Total</u>	
Total Expenditures	\$54,204	\$24,995	\$ 5,442	\$26,245	\$31,687	
Less Non-sharable Costs	<u>2,660</u>	<u>39</u>	<u>28</u>	<u>36</u>	<u>64</u>	
Expenditures to be Shared	<u>\$51,544</u>	<u>\$24,956</u>	<u>\$ 5,414</u>	<u>\$26,209</u>	<u>\$31,623</u>	
State Matching Requirements	10%	10%	10%	20%		20%
State Participation:						
In-kind	\$ 3,288	\$ 1,740	\$ 416	\$ 2,079	\$ 2,495	
Cash	<u>1.866</u>	<u>756</u>	<u>125</u>	<u>3,163</u>	<u>3,288</u>	
Total	<u>5,154</u>	<u>2,496</u>	<u>541</u>	<u>5,242</u>	<u>5,783</u>	\$ 8,438
Federal Participation	<u>46,390</u>	<u>22,460</u>	<u>4,873</u>	<u>20,967</u>	<u>25,840</u>	<u>33,485</u>
Total Shared Expenditures	<u>\$51,544</u>	<u>\$24,956</u>	<u>\$ 5,414</u>	<u>\$26,209</u>	<u>\$31,623</u>	<u>\$41,923</u>

As shown by the table, the state matching requirement was 10% until March 31, 1968. The federal grant for the grant fiscal year ended January 31, 1969, provided that the state matching requirement be increased to 20% after the state economic

opportunity program had been in operation for 32 months, or April 1, 1968.

The table further illustrates that the state's matching expenditures may consist of in-kind contributions as well as direct cash disbursements. In-kind contributions consist of costs applicable to the state economic opportunity program that are incurred by other state agencies financed from the general fund but which costs are not charged to the state economic opportunity office's general fund appropriation. Examples of this type contribution are rental for office space provided in the state capitol, rental for office equipment provided by the governor's office, and accounting, auditing, and legal services provided by the applicable state agencies.

The federal participation consists of disbursements from federal grant payments deposited to the state economic opportunity office's account in the federal and private revenue fund. The following summary presents the history of federal grant payments, federal participation in the cost of the program through January 31, 1969, and the balance of federal funds on hand January 31, 1969.

	Grant	Period	
	<u>8/6/65-</u>	<u>5/1/67-</u>	<u>2/1/68</u>
	<u>4/30/67</u>	<u>1/31/68</u>	<u>1/31/69</u>
Federal Grant Payments Received	\$49,387	\$23,579	\$27,387
Federal Share of Expenditures	<u>46,390</u>	<u>22,460</u>	<u>25,840</u>
Excess of Grant Receipts over Federal Participation - Grant Period	<u>\$ 2,997</u>	<u>\$ 1,119</u>	<u>\$ 1,547</u>
Accumulated Excess - Fund Balance	\$ 2,997	\$ 4,116	\$ 5,663

The state economic opportunity office is located in the state capitol in Helena and is staffed by three full-time employees--the director, rural area and Indian program specialist, and secretary-administrative aide. The governor appoints the director who in turn appoints his staff. In January, 1969, a turnover in personnel occurred resulting in the appointment of a new director and secretary.

ACCOUNTING SYSTEM

The Montana state economic opportunity office does not have an accounting system that is adequate to accurately account for its operations or to determine its financial position. The financial statements included in this report were prepared for the most part from detail documents comprising the office's transactions.

A prime need is the establishment and maintenance on a current basis of a general ledger utilizing the double entry system of accounting. This system would provide the office with the basic structure it needs to accurately account for its operations and determine its financial position. The lack of proper maintenance of such a system has resulted in errors such as the following:

1. The final report to the federal government for the preceding grant period (May 1, 1967 - January 31, 1968) was incorrectly prepared.
2. The presently maintained single entry expenditure register/ledger for the grant fiscal year ended January 31, 1969, contained several errors and accordingly the preliminary year-end report to the federal government was not accurate.
3. The office's records as presently maintained cannot show the interfund obligations, discussed in this report under the caption "Financial Position".

RECOMMENDATION

We recommend that the state economic opportunity office:

- (1) Establish and maintain on a current basis a general ledger utilizing the double entry system.
- (2) Prepare and file with the federal government amended corrected reports for the grant periods ended April 30, 1967, and January 31, 1968.
- (3) Make correcting entries in its expenditure register/ledger for the grant fiscal year ended January 31, 1969, so the transactions for the year are properly recorded and an accurate final report can be filed with the federal government.

FINANCIAL POSITION

As shown on the balance sheet, Exhibit A, an interfund obligation of \$2,596 exists between the general fund and the federal and private revenue fund. This amount represents the deficiency of state contributions (cash and in-kind) for two grant periods as follows:

First Grant Period (August 6, 1965 - April 30, 1967):

Total program expenditures	\$54,204	
Expenditures disallowed (costs incurred prior to effective date of grant)	<u>2,660</u>	
Total expenditures to be shared	<u>\$51,544</u>	
State's 10% share	\$ 5,154	
Accepted state contribution (all in-kind)	<u>3,288</u>	
Deficiency-Shown as prior year adjustment on Exhibit B		\$ 1,866

Third Grant Period (February 1, 1968 - January 31, 1969):

State's share of expenditures	\$ 5,783	
State contribution (cash and in-kind):		
Total	\$ 5,117	
Less non-allowable travel expenses in excess of federal limitations	<u>64</u>	<u>5,053</u>
Deficiency-Included in expenditures on Exhibit C		<u>730</u>
Total Interfund Obligation		<u>\$ 2,596</u>

As noted in our audit report for the second grant period (May 1, 1967 - January 31, 1968), the state overcontributed in cash and in-kind for that grant period as follows:

State contribution (cash and in-kind):

Total	\$ 3,443	
Less non-allowable travel expenses in excess of federal limitations	<u>39</u>	\$ 3,404
State's 10% share of expenditures		<u>2,496</u>
Excess contribution		<u>\$ 908</u>

In accordance with our recommendation, a transfer of \$908 was made in April, 1968, from the state economic opportunity office's account in the federal and private revenue fund to the general fund appropriation to reimburse the general fund for its

overcontribution for the grant period. This transaction is shown as a prior year adjustment on Exhibit B.

RECOMMENDATION

We recommend that the state economic opportunity office initiate a fund transfer to reimburse its account in the federal and private revenue fund from the general fund for the deficiency of state contributions as of January 31, 1969, in the amount of \$2,596.

CONCLUSION

The accompanying financial statements accurately present the financial position and operations of the state economic opportunity office for the grant fiscal year ended January 31, 1969. However, a considerable amount of unnecessary work was required to produce the statements because the existing system is not adequate to provide the information as directly as it should. The implementation of the recommendations contained in this report will bring the office's records and reports into accurate agreement as of January 31, 1969, and should establish a sound basis for recording and reporting upon the future operations of the office.

We believe that Montana's state economic opportunity office, except for the accounting system deficiencies noted, continues to have a system of internal control that fulfills the requirements of the federal grant.

The comments and recommendations contained in this report have been discussed with the director of the state economic opportunity office. We wish to express our appreciation to him and his staff for the cooperation they extended during the conduct of our work.

Respectfully submitted,



Morris L. Brusett
Legislative Auditor

April 29, 1969

EXHIBIT A

STATE ECONOMIC OPPORTUNITY OFFICE

ALL FUNDS

BALANCE SHEET

January 31, 1969

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>General Fixed Assets</u>	<u>Total All Funds</u>	<u>Less Interfund Obligations</u>	<u>Net Total All Funds</u>
<u>Assets</u>						
Cash in State Treasury	\$ -	\$ 3,127	\$ -	\$ 3,127	\$ -	\$ 3,127
Appropriation	5,583	-	-	5,583	-	5,583
Due from General Fund	-	2,596	-	2,596	2,596	-
Equipment	-	-	335	335	-	335
Total	\$ 5,583	\$ 5,723	\$ 335	\$11,641	\$ 2,596	\$ 9,045
<u>Liabilities, Reserves, and Fund Balance</u>						
Accounts Payable	\$ -	\$ 60	\$ -	\$ 60	\$ -	\$ 60
Due to Federal and Private Revenue Fund	2,596	-	-	2,596	2,596	-
Reserve for Investment in General Fixed Assets	-	-	335	335	-	335
Fund Balance (Exhibit B)	2,987	5,663	-	8,650	-	8,650
Total	\$ 5,583	\$ 5,723	\$ 335	\$11,641	\$ 2,596	\$ 9,045

EXHIBIT B

STATE ECONOMIC OPPORTUNITY OFFICE
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCE
Grant Fiscal Year Ended January 31, 1969

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>
Fund Balance, February 1, 1968 (Cash Basis)	\$ 2,797	\$ 3,158
Add:		
Revenues (Exhibit C)	6,995	27,387
Prior Year Adjustments:		
Reimbursement to Federal and Private Revenue Fund from General Fund for Deficiency in State Contributions During First Grant Period (August 6, 1965 - April 30, 1967)	(1,866)	1,866
Reimbursement to General Fund from Federal and Private Revenue Fund for Excess State Contributions During Second Grant Period (May 1, 1967 - January 31, 1968)	<u>908</u>	<u>(908)</u>
Total Balance and Additions	8,834	31,503
Deduct:		
Expenditures:		
Shared program costs (Exhibit C)	5,783	25,840
Other (Travel expenses in excess of Federal limitations)	<u>64</u>	<u>-</u>
Fund Balance, January 31, 1969	<u>\$ 2,987</u>	<u>\$ 5,663</u>

STATE ECONOMIC OPPORTUNITY OFFICE
ALL FUNDS
STATEMENT OF REVENUES
 Grant Fiscal Year Ended January 31, 1969

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Total</u>
Appropriation	\$ 4,500	\$ -	\$ 4,500
State In-Kind Contributions	2,495	-	2,495
Federal Grant No. 68-6082	<u>-</u>	<u>27,387</u>	<u>27,387</u>
Total Revenues	<u>\$ 6,995</u>	<u>\$27,387</u>	<u>\$34,382</u>

STATEMENT OF EXPENDITURES COMPARED WITH AUTHORIZATION
 Grant Fiscal Year Ended January 31, 1969

	<u>Federal Grant Authorization</u>	<u>Expenditures</u>	<u>Under (Over) Authorization</u>
Personnel Services	<u>\$26,934</u>	<u>\$26,456</u>	<u>\$ 478</u>
Operation:			
Supplies and Materials	477	202	275
Travel	5,456	1,981	3,475
Equipment Rental	431	482	(51)
Space Rental	1,254	1,254	-
Contract Services	705	705	-
Other	<u>848</u>	<u>543</u>	<u>305</u>
Total Operation	<u>9,171</u>	<u>5,167</u>	<u>4,004</u>
Total Expenditures	<u>\$36,105</u>	<u>\$31,623</u>	<u>\$ 4,482</u>
Expenditures by Fund:			
General Fund	\$ 6,620	\$ 5,783	\$ 837
Federal and Private Revenue Fund	<u>29,485</u>	<u>25,840</u>	<u>3,645</u>
Total Expenditures	<u>\$36,105</u>	<u>\$31,623</u>	<u>\$ 4,482</u>

STATE ECONOMIC OPPORTUNITY OFFICE
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
Grant Fiscal Year Ended January 31, 1969

Equipment - Balance, February 1, 1968	\$ 270
Additions:	
Filing cabinet purchased in 1966--Not previously recorded in inventory	<u>65</u>
Equipment - Balance, January 31, 1969	<u>\$ 335</u>

